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There's more than meets the eye in determining players' salary shares

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Last week, SportsBusiness Journal published an article on salary shares in revenue in the four U.S. major professional sports leagues. The article raised some important questions that warrant further scrutiny.

First, it is not a simple matter to compare player salary shares because the accounting systems, the roster sizes and the number of games played vary across the leagues.

Second, other things being equal, one would expect that leagues with higher overall revenue would have higher player shares. This is because certain basic costs are present in all leagues and their share in revenue diminishes as revenue rises.

Third, and importantly, MLB teams have to cover very substantial minor league player costs, while the NBA (NBA Development League) and the NHL (AHL and a few players in the ECHL) have modest minor league player costs and the NFL has none.

Moreover, the NBA D-League and AHL also generate revenue that helps to defray the player costs. The minor league MLB teams are mostly independently owned and, in any case, the revenue earned does not go to major league teams. Yet the major league team pays the salaries of all the players on affiliated clubs.

In 2007, the average MLB team spent more than $20 million on its player development system. Of this, over $11.5 million went to pay the salaries of the minor league players.

Generally, each MLB team has six minor league affiliates. Teams also run fall and winter

development camps and leagues. Together, an average of 6.2 percent of MLB revenue went toward these minor league salaries.

The player salary and benefit share of NFL revenue in 2006-07 were 58.4 percent. The respective shares in the NBA, NHL and MLB (2007) were 57 percent, 55.6 percent and 51 percent.

If we add the 6.2 percent that goes to minor league baseball players (without generating revenue for the major league club), the total player share in MLB revenue rises to 57.2 percent, putting it ahead of the NBA and NHL shares.

As the article pointed out, the last several years have been atypical for MLB. On the one hand, MLB revenue has been soaring, and it is not at all unusual that salaries are in a catch-up phase.

It is perhaps a drawback (to players) of a non-salary-cap system that salaries will tend to lag during periods of rapid growth.

On the other hand, it is clear that the 2002 collective-bargaining agreement contained many effective salary-retarding features. MLB's revenue-sharing system lowers the net value of a player's contribution to team revenue by some 30 percent, and, hence, should work to lower player salaries significantly.

Although recipient teams are supposed to spend their revenue transfers on improving team on-field performance, they are not obligated to do so, and some do not. The players association rejected owner offers to install a minimum club payroll of around $40 million in 2002.

The luxury tax system imposes levies on multiple offenders up to 40 percent when team payrolls go over a certain threshold, providing further restraint of payroll expenditures by rich teams. Finally, new debt rules make it more difficult for owners to borrow money in order to increase salaries.

Other special features of the baseball labor market reinforce the downward pressure on annual player salaries.

First, baseball does not have statutory limits on the length of player contracts. Alex Rodriguez just signed a 10-year contract worth between $275 million and $300 million.

If MLB had a rule (as the NBA does) limiting A-Rod's contract to six years, how much would he have been paid on an annual basis? Competitive forces would have led to something considerably higher than $28 million or $29 million a year, and MLB's salary share would be higher.

Relatedly, after 9/11, insurance companies became stricter about covering long-term contracts. Today, it is basically not viable for an MLB team to insure a player's contract for health reasons. This is a force impelling many owners to be more conservative.

Some of the money that teams pay out for players in MLB does not go to the players; rather, it

goes to Japanese companies, thanks to the idiosyncrasies of baseball's posting system.

Thus, the Red Sox paid $101 million for Daisuke Matsuzaka, but only $50 million of this went to Matsuzaka. The Yankees paid $46 million for Kei Igawa, but only $20 million was part of the players' salary share.

Finally, any sound statistical analysis will consider data from more than one year. If we look at 2003-07, the following are the unadjusted player shares:

NFL: 56 percent

NBA: 57 percent

MLB: 54 percent (+6.2 percent = 60.2 percent)

All these things should be taken into account before rushing to judgment about baseball's economic system.

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